

## Message Text

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MANILA FOR USADB, ABIDJAN FOR HENNESSEY, BRUSSELS ALSO FOR

USEEC, PARIS ALSO FOR USOECD  
E.O. 11652: GDS

TAGS: IDB, EAID

SUBJECT: MEETING OF WORKING GROUP ON REPLENISHMENT OF  
RESOURCES OF INTER-AMERICAN DEVELOPMENT BANK

REF: STATE 108137

BEGIN SUMMARY

1. SECOND MEETING OF THE DONOR'S WORKING GROUP FOR IDB'S FIFTH REPLENISHMENT WAS HELD IN MADRID MAY 30-31. THE ONLY MAJOR ISSUE ON WHICH AGREEMENT WAS REACHED WAS A FOUR YEAR TIMEFRAME FOR THE REPLENISHMENT. THERE WAS A GENERAL CONSENSUS, HOWEVER, THAT THERE SHOULD BE GREATER EMPHASIS ON LENDING FROM THE CAPITAL WINDOWS THAN FROM THE FSO, AND THAT FSO LENDING SHOULD BE FOCUSED ON THE POOR. NON-REGIONAL COUNTRIES WERE DISPOSED TO INCREASE THEIR SHARE OF CAPITAL IN THIS REPLENISHMENT TO EIGHT PERCENT, BUT WERE INCLINED TO REDUCE THEIR CONTRIBUTION TO THE FSO TO LESS THAN THE CURRENT 30 PERCENT. ALTHOUGH THIS WAS A MEETING OF DONORS, THE FOUR LATIN PARTICIPANTS (ARGENTINA, BRAZIL, MEXICO AND VENEZUELA) DID NOT SEEM TO PERCEIVE THEMSELVES AS SUCH AND DID NOT PLAY A VERY ACTIVE ROLE EVEN ON ISSUES OF MAJOR SIGNIFICANCE TO THEM.  
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2. SPECIFIC LEVELS FOR THE REPLENISHMENT WERE NOT DISCUSSED, BUT A FEW COUNTRIES INDICATED A GENERAL PREFERENCE FOR AN IDB ALTERNATIVE (\$8.3 BILLION FOR CAPITAL AND \$2.0 BILLION FOR THE FSO) WHICH EMPHASIZES THE CAPITAL WINDOWS OVER THE FSO. THE U.S. SAID THESE LEVELS WERE EXCESSIVELY AMBITIOUS, BUT NOT IMPOSSIBLE PROVIDED MAJOR PROGRESS IS MADE ON THE ORIENTATION OF THE IDB'S LENDING PROGRAM AND OTHER POLICY ISSUES. THE DISCUSSION REVOLVED PRINCIPALLY AROUND THE INSISTENCE OF THE U.S. SUPPORTED BY CANADA AND JAPAN THAT MAJOR DECISIONS ON THESE ISSUES BE MADE IN THE CONTEXT OF THE REPLENISHMENT NEGOTIATIONS. WE STATED REPEATEDLY THAT HOW THESE POLICY QUESTIONS WERE RESOLVED WOULD AFFECT SIGNIFICANTLY THE LEVEL OF OUR CONTRIBUTIONS TO THE REPLENISHMENT.

3. IN RESPONSE TO THIS, THE WORKING GROUP AGREED THAT SPECIAL MEETINGS TO ADDRESS THESE ISSUES SHOULD BE CONVENED JUNE 29 AND 30. THE RESULTS OF THESE MEETINGS AS WELL AS OTHER REPLENISHMENT ISSUES WILL BE CONSIDERED AT THE THIRD MEETING OF THE WORKING GROUP SEPTEMBER 5. THE IDB HOPES TO CONCLUDE THE REPLENISHMENT NEGOTIATIONS BY SEPTEMBER 29. EMBASSIES SHOULD STRESS TO HOST GOVERNMENTS THE IMPORTANCE OF PROGRESS ON THE POLICY ISSUES TO OUR POSITIONS ON REPLENISHMENT LEVELS.

END SUMMARY

4. AT ITS ANNUAL MEETING IN VANCOUVER IN APRIL, THE IDB COMMITTEE OF THE BOARD OF DIRECTORS ESTABLISHED A WORKING GROUP TO PREPARE PROPOSALS FOR THE FIFTH REPLENISHMENT OF THE BANK'S RESOURCES WHICH WILL BE SUBMITTED TO THE BANK'S BOARD OF GOVERNORS BY SEPTEMBER 29, 1978. THE GROUP COMPRISES COUNTRIES WHICH CONTRIBUTE CONVERTIBLE CURRENCY TO THE IDB SOFT LOAN WINDOW, THE FUND FOR SPECIAL OPERATIONS (FSO)--THE U.S., CANADA, ARGENTINA, BRAZIL, CONFIDENTIAL

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MEXICO, TRINIDAD AND TOBAGO, VENEZUELA AND THE NON-REGIONAL MEMBERS. AN ESSENTIALLY ORGANIZATIONAL MEETING TOOK PLACE IN VANCOUVER ON APRIL 18. THE SECOND MEETING WAS HELD IN MADRID ON MAY 30-31 UNDER THE CHAIRMANSHIP OF VENEZUELA. A THIRD MEETING HAS BEEN SCHEDULED FOR SEPTEMBER 5 IN WASHINGTON.

5. AT THE MADRID MEETING, DELEGATIONS SET OUT THEIR POSITIONS ON SOME OF THE MAJOR ISSUES BUT NONE MADE ANY COMMITMENTS ON REPLENISHMENT LEVELS AND AGREEMENT WAS REACHED ON VERY LITTLE. THE OFFICIAL REPORT OF THE MEETING NOTES THAT THE GROUP REACHED THE FOLLOWING CONCLUSIONS:

(A) IT UNANIMOUSLY SUPPORTS THE REPLENISHMENT EXERCISE.

(B) IT ACCEPTS IN PRINCIPLE THAT THE REPLENISHMENT SHOULD BE FOR A FOUR YEAR PERIOD.

(C) IT RECOMMENDS THAT THE IDB NEGOTIATE WITH THE NON-REGIONAL MEMBERS WHICH JOINED THE BANK IN 1977 A FORMULA WHICH WOULD AVOID OVERLAPPING OF PAYMENTS FOR THE FIFTH REPLENISHMENT WITH THOSE THEY AGREED TO AT THE TIME OF THEIR ENTRY.

(D) ITS RECOMMENDATIONS WILL INCLUDE A PROPOSAL FOR A TRIGGER MECHANISM BY WHICH THE REPLENISHMENT AND THE INDIVIDUAL INSTALLMENTS WILL COME INTO FORCE.

(E) IT AGREES THAT DETERMINATION OF THE STANDARD OF VALUE FOR THE IDB'S RESOURCES (E.G., U.S. DOLLAR OR SDR) REQUIRES FURTHER STUDY AND COORDINATION WITH OTHER MULTILATERAL DEVELOPMENT BANKS (MDBS).  
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(F) IT RECOMMENDS THAT THE GENERAL POLICY ISSUES RELATED TO THE REPLENISHMENT SHOULD BE DISCUSSED AT A FORUM IN WHICH ALL THE REGIONAL DEVELOPING NATIONS, AS WELL AS THE MEMBERS OF THE WORKING GROUP, ARE REPRESENTED. IT PROPOSES THE CONVENTION IN WASHINGTON AS SOON AS POSSIBLE OF

CONSECUTIVE MEETINGS OF THE COMMITTEE OF THE BOARD OF GOVERNORS AND OF THE NEW WORKING GROUP ON FUNCTIONS AND POLICIES CREATED AT VANCOUVER TO STUDY THESE ISSUES. THESE MEETINGS WERE IMMEDIATELY SCHEDULED FOR JUNE 29-30.

(G) IT RECOMMENDS THAT THE DESIRE OF MOST NON-REGIONAL MEMBERS IN HAVING BROADER REPRESENTATION ON THE BOARD OF EXECUTIVE DIRECTORS BE CONSIDERED BY THE COMMITTEE OF THE BOARD OF GOVERNORS.

6. THE REPORT ALSO NOTES THAT THE GROUP AGREED TO CONTINUE STUDY OF THE FOLLOWING ISSUES:

(A) THE AMOUNT OF THE REPLENISHMENT OF THE BANK'S CAPITAL RESOURCES--ORDINARY CAPITAL (OC) AND INTER-REGIONAL CAPITAL (IC)--AND THE FSO. THE REPORT NOTES THAT THE MAJORITY OF THE DELEGATIONS INDICATED THEY FOUND ACCEPTABLE THE BREAK-DOWN BETWEEN CONCESSIONAL AND CONVENTIONAL LENDING CONTAINED IN ALTERNATIVE III PROPOSED BY THE BANK (WHICH STRESSES CONVENTIONAL OVER CONCESSIONAL LENDING AND PROPOSES NO INCREASE IN THE LEVEL OF THE FSO EVEN IN NOMINAL TERMS) AND THAT THIS ALTERNATIVE MAY SERVE AS THE FOCAL POINT FOR FUTURE DELIBERATIONS. A NUMBER OF DELEGATIONS,

THE REPORT CONTINUES, DECLARED THEY WERE WILLING TO ACCEPT THIS FORMULA WHILE OTHERS (INCLUDING THE U.S.) INDICATED THAT THE TOTAL AMOUNT THE FORMULA PROPOSES (IMPLYING ANNUAL GROWTH OF 21.4 PERCENT IN NOMINAL OC/IC LENDING ON THE BANK'S BASE FIGURE) SEEMED EXCESSIVE.

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(B) COMPOSITION OF THE REPLENISHMENT OF OC/IC. THE BOARD OF EXECUTIVE DIRECTORS WILL PREPARE A STUDY OF THE MEANS BY WHICH THE NON-REGIONALS MAY RAISE THEIR PARTICIPATION IN THIS REPLENISHMENT OF THE AUTHORIZED CAPITAL FROM THE CURRENT FOUR PERCENT TO EIGHT PERCENT AS MANY DECLARE THEY WOULD LIKE TO DO.

(C) PROPORTION OF THE OC/IC REPLENISHMENT TO BE PAID IN. THIS ISSUE WILL BE STUDIED IN LIGHT OF THE IMPACT WHICH A PERCENTAGE PAID IN OF LESS THAN TEN PERCENT WOULD HAVE ON THE FINANCIAL SITUATION OF THE BANK. SOME DELEGATIONS SUPPORTED THE TEN PERCENT FIGURE WHILE OTHERS (INCLUDING THE U.S.) SUGGESTED A LOWER PERCENTAGE MIGHT BE POSSIBLE.

(D) PARTICIPATION IN THE REPLENISHMENT OF THE FSO. A DETERMINATION MUST BE MADE CONCERNING THE DISTRIBUTION OF CONTRIBUTIONS TO THE FSO AMONG THE U.S., CANADA, THE LATIN AMERICAN COUNTRIES AND THE NON-REGIONALS. (MANY NON-REGIONALS QUESTIONED THE IDB'S RECOMMENDATION THAT THEY CONTINUE TO MAKE 30 PERCENT OF THE FSO CONTRIBUTIONS.)

(E) THE PROPORTION OF CONTRIBUTIONS TO THE OC/IC AND FSO WHICH WILL BE MADE IN FREELY CONVERTIBLE RATHER THAN LOCAL CURRENCIES.

7. IDB PRESIDENT ORTIZ MENA OPENED THE MEETING ON MAY 30 WITH A RESTATEMENT OF THE BANK'S FUNDAMENTAL GOALS FOR THE REPLENISHMENT. ORTIZ MENA CALLED FOR A REAL ANNUAL GROWTH IN IDB LENDING (OC/IC AND FSO) OF AT LEAST SEVEN PERCENT; A FOUR YEAR REPLENISHMENT; LENDING OPERATIONS SUFFICIENTLY DIVERSE TO DEAL WITH THE DIFFERENT REQUIREMENTS OF THE REGION; RECOGNITION THAT THE AVAILABILITY OF PRIVATE RESOURCES DOES NOT OBTAIN THE NEED FOR PUBLIC FINANCING  
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AND THAT THE LATTER CAN FACILITATE MOBILIZATION OF THE FORMER; LENDING PROGRAMS CONSISTENT WITH RECIPIENTS' OVER-ALL DEVELOPMENT EFFORTS; INCREASED COMPLEMENTARY FINANCING; FOCUS ON RURAL DEVELOPMENT AND FOOD PRODUCTION, HYDRO-ELECTRIC AND NON-CONVENTIONAL ENERGY, NATURAL RESOURCES, URBAN DEVELOPMENT AND TECHNICAL COOPERATION.

8. THE ISSUES AROUND WHICH MOST DISCUSSION CENTERED WERE SET OUT IN THE REMARKS OF THE U.S. DELEGATE (TREASURY

ASSISTANT SECRETARY BERGSTEN). BERGSTEN'S SPEECH, COPIES OF WHICH WERE DISTRIBUTED, STRESSED THE FOLLOWING POINTS:

-- LATIN AMERICA HAS EXPERIENCED IMPRESSIVE ECONOMIC DEVELOPMENT AND PLAYS AN INCREASINGLY IMPORTANT ROLE IN THE GLOBAL ECONOMY.

-- THE IDB'S ROLE FOR THE 1980S AND THE STRUCTURE OF ITS LENDING PROGRAM SHOULD BE MODIFIED TO CONFORM TO THESE DEVELOPMENTS AND THE NEW ECONOMIC SITUATION OF LATIN AMERICA.

-- FOR THE MORE ADVANCED COUNTRIES OF THE REGION THE IDB SHOULD EXPAND ITS PROGRAMS TO ATTRACT SUBSTANTIAL NON-OFFICIAL FUNDS TO COMPLEMENT THE BANK'S EFFORTS. THESE COUNTRIES ARE DONORS AS WELL AS RECIPIENTS AND SHOULD PROVIDE CONCESSIONAL RESOURCES TO POORER COUNTRIES BY CONTINUING TO REFRAIN FROM BORROWING FROM THE FSO AND INCREASING THEIR CONVERTIBLE CURRENCY CONTRIBUTIONS TO THE FSO. THEY SHOULD ALSO MAKE FREELY USABLE THEIR NATIONAL CURRENCIES ALREADY HELD BY THE IDB. AN INCREASING SHARE OF IDB CAPITAL RESOURCES SHOULD BE DEVOTED TO COUNTRIES OTHER THAN THE MOST ADVANCED ONES.

-- THE IDB SHOULD GIVE HIGHEST PRIORITY IN ITS CONCESSIONAL LENDING PROGRAM TO THE POOREST COUNTRIES AND THEIR  
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POOR PEOPLE.

-- COUNTRIES BETWEEN THE ADVANCED AND POOREST SHOULD RELY PRIMARILY ON CAPITAL RESOURCES, BUT SHOULD RETAIN SOME ACCESS TO THE FSO FOR PROJECTS WHICH DIRECTLY BENEFIT THEIR POOREST PEOPLE. SINCE THE BULK OF CONCESSIONAL RESOURCES SHOULD BE DIRECTED PRIMARILY TO THE POOREST COUNTRIES, A CERTAIN PERCENTAGE OF CAPITAL RESOURCES COULD BE RESERVED FOR THIS MIDDLE GROUP OF COUNTRIES.

-- A RECASTING OF THE IDB'S COUNTRY CATEGORIZATION SYSTEM IS IN ORDER TO ACCURATELY REFLECT THESE THREE GROUPINGS.

-- THERE SHOULD BE A CONSIDERABLE SHIFT IN EMPHASIS IN IDB LENDING FROM THE FSO TO THE CAPITAL WINDOWS.

-- IDB RESOURCES SHOULD BE DEVOTED MORE TO IMPROVING THE LOT OF THE POOREST SEGMENTS OF THE POPULATION. THERE SHOULD BE A BETZCBALANCE BETWEEN THE TWO BASIC FUNCTIONS OF DEVELOPMENT--STRUCTURAL TRANSFORMATION AND GROWTH WITH EQUITY.

-- IDB RESOURCES MUST BE USED EFFICIENTLY. THE BANK SHOULD BROADEN ITS ANALYSIS TO INCLUDE THE RELATIONSHIP OF INDIVIDUAL LOANS TO RECIPIENTS' OVERALL DEVELOPMENT EFFORTS.

-- UTILIZATION OF THE BANK'S RESOURCES SHOULD BE MAXIMIZED. AMONG THE POSSIBILITIES FOR DOING SO ARE: AN ALL-CONVERTIBLE CURRENCY REPLENISHMENT, THE BURDEN OF WHICH MIGHT BE EASED BY REQUIRING A LOWER PERCENTAGE OF PAID-IN CAPITAL; CONVERSION, ON A REASONABLE SCHEDULE, OF NATIONAL CURRENCIES HELD BY THE BANK INTO MORE FULLY USABLE  
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RESOURCES; REDUCING THE USE OF CONVERTIBLE CURRENCY FOR FINANCING LOCAL AND INDIRECT FOREIGN EXCHANGE COSTS; MORE EFFICIENT USE OF PERSONNEL RESOURCES AND CURBING ADMINISTRATIVE COSTS.

-- THE ROLE IN THE IDB OF THE NON-REGIONAL AND MORE ADVANCED REGIONAL MEMBERS SHOULD REFLECT THEIR INCREASING PARTICIPATION IN THE OVERALL TRADE AND INVESTMENT OF THE REGION.

-- THE U.S. WILL PROVIDE ITS FAIR SHARE OF THE REPLENISHMENT SUBJECT TO THE APPROVAL OF CONGRESS. PROGRESS ON THE ISSUES DESCRIBED ABOVE WILL ENHANCE THE SUSTAINABILITY OF OUR PLEDGES.

-- WE WILL CONSULT WITH CONGRESS ON THE LEVELS OF U.S. CONTRIBUTIONS TO THE REPLENISHMENT AS SOON AS WE CAN SEE CLEARLY THE ORIENTATION OF THE IDB'S FUTURE LENDING PROGRAM AND RESPONSES TO OUR OTHER PROPOSALS. THE UNDERSTANDINGS WHICH ARE REACHED ON THESE ISSUES, AS WELL AS THE AMOUNTS PLEDGED BY OTHER DONORS, WILL BE MAJOR ELEMENTS IN SHAPING OUR JUDGMENT AND THAT OF THE CONGRESS ON REPLENISHMENT LEVELS.

9. THE SUCCEEDING DISCUSSION FOCUSED PRINCIPALLY ON THE POINTS SET FORTH IN THE U.S. PRESENTATION AND REINFORCED BY CANADA, JAPAN AND SEVERAL OTHERS. THE MAIN TOPIC WAS OUR FIRM AND REPEATED INSISTENCE THAT THERE BE SIGNIFICANT PROGRESS ON THE SEVERAL CHANGES PROPOSED IN THE BANK'S LENDING PROGRAM AND OPERATIONS BEFORE WE WOULD MAKE ANY COMMITMENT ON THE LEVELS OF OUR CONTRIBUTION TO THE REPLENISHMENTS. MEXICO WANTED THE WORKING GROUP ON FUNCTIONS AND POLICIES, WHICH IT HAD PROPOSED AT VANCOUVER AND CHAIRS, TO PLAY THE CENTRAL ROLE IN CONSIDERATION OF SUCH ISSUES, BUT GOT LITTLE SUPPORT FOR THIS POSITION. NUMEROUS COUNTRIES INCLUDING THE FRG, ITALY, ARGENTINA, CONFIDENTIAL

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SWITZERLAND, THE NETHERLANDS AND BRAZIL, ARGUED THAT THESE ISSUES SHOULD BE DISCUSSED IN A FORUM WHICH INCLUDED ALL IDB RECIPIENTS AS WELL AS DONORS, A VIEW ACCEPTED BY US. A FEW SUGGESTED THESE ISSUES NOT BE CONSIDERED AT ALL IN THE CONTEXT OF THE REPLENISHMENT NEGOTIATIONS. CANADA AND JAPAN WERE THE MOST VIGOROUS SUPPORTERS OF THE U.S. POSITION THAT THESE ISSUES SHOULD BE EXAMINED AS THOROUGHLY AND AS SOON AS POSSIBLE AND THAT THEY WOULD HAVE A SIGNIFICANT BEARING ON THE OUTCOME OF THE REPLENISHMENT NEGOTIATIONS. AS NOTED IN PARAGRAPH 5 IT WAS AGREED THAT BOTH THE POLICIES AND FUNCTIONS WORKING GROUP AND THE COMMITTEE OF THE BOARD OF GOVERNORS

WOULD MEET SOON (JUNE 29-30) TO TAKE UP THESE POINTS. IDB STAFF WILL PREPARE PAPERS ON THE ISSUES WHICH WILL BE EXAMINED BY THE WORKING GROUP IN PREPARATION FOR THE COMMITTEE OF THE BOARD'S CONSIDERATION OF THEM.

10. VIRTUALLY ALL COUNTRIES SUPPORTED EMPHASIS IN THIS REPLENISHMENT ON THE CAPITAL WINDOWS RATHER THAN THE FSO. NO ONE ADVOCATED A REAL INCREASE IN ANNUAL FSO LENDING, ALTHOUGH SWITZERLAND AND THE UK STRESSED THE IMPORTANCE OF THE FSO. JAPAN, CANADA AND FRANCE WERE THE STRONGEST ADVOCATES, BESIDES THE U.S., OF EMPHASIZING CAPITAL LENDING. THE NETHERLANDS, SPAIN, DENMARK, AND BELGIUM ALSO SHARED THIS VIEW.

11. THERE WAS GENERAL AGREEMENT THAT FSO RESOURCES

SHOULD BE FOCUSED ON THE LEAST DEVELOPED COUNTRIES AND PRINCIPALLY ON PROJECTS WHICH MEET THE NEEDS OF THE POOREST PEOPLE. THE U.K., DENMARK, ISRAEL, CANADA AND FRANCE EXPLICITLY SUPPORTED THIS IDEA. FRANCE SAID FSO  
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RESOURCES SHOULD BE USED ONLY WHERE INDISPENSABLE. OUR SUGGESTION THAT THE IDB'S COUNTRY CLASSIFICATION SYSTEM BE REVAMPED PROVOKED WIDELY DIVERGENT RESPONSES. ARGENTINA SAID IT WAS "VERY DANGEROUS." CANADA BELIEVED THE GOAL OF REDIRECTING THE LENDING FOCUS COULD BE ACCOMPLISHED MORE EASILY BY OTHER MEANS AND DID NOT LIKE RECLASSIFICATION. SPAIN AND ISRAEL THOUGHT A RECLASSIFICATION MADE SENSE.

12. CAPITAL REPLENISHMENT: MOST OF THE NON-REGIONAL COUNTRIES AGREED THEY SHOULD ATTEMPT TO INCREASE THEIR SHARE OF THE CAPITAL TO EIGHT PERCENT IN THIS REPLENISHMENT. SINCE THE U.S. DOES NOT PROPOSE TO REDUCE ITS VOTING POWER BELOW 34.5 PERCENT AND IS CLOSE TO THIS LIMIT NOW, AN INCREASE IN THE NON-REGIONALS' SHARE WOULD HAVE TO BE AT THE EXPENSE OF THE LATINS.

.3. FSO REPLENISHMENT: CONTRASTING SHARPLY WITH THEIR DESIRE TO INCREASE THEIR SHARE OF THE CAPITAL WERE QUESTIONS RAISED BY THE NON-REGIONALS CONCERNING WHETHER THEIR 30 PERCENT SHARE OF THE FSO REPLENISHMENT AS PROPOSED BY THE IDB WAS TOO HIGH. THE U.S. MADE IT CLEAR THAT WE WOULD TAKE NO MORE THAN 40 PERCENT OF THE CONVERTIBLE CURRENCY AND THE CANADIANS SAID THEY COULD PROBABLY RETAIN THEIR CURRENT 3.3 PERCENT. HENCE, ANY REDUCTION IN THE NON-REGIONALS' SHARE WOULD REQUIRE AN INCREASE IN THOSE OF THE LATIN AMERICAN REGIONAL MEMBERS. ALTHOUGH WE POINTED THIS OUT, NONE OF THE FOUR LATIN REGIONALS AT THE MEETING ADDRESSED THE ISSUE--NOR ANY OTHER ISSUE RELATED TO THEIR ROLE AS DONOR COUNTRIES. CANADA SAID THAT, IF THE NON-REGIONAL SHARE SHOULD DROP BELOW 30 PERCENT, A NEW WAY FOR DETERMINING FSO SHARES MIGHT HAVE TO BE DEVELOPED. CANADA SUGGESTED THAT PERHAPS GNP OR COUNTRY PROCUREMENT SHARES WOULD BE RELEVANT IN THIS REGARD AND NOTED LEVELS OF PROCUREMENT AS A PERCENTAGE OF CONTRIBUTIONS FOR VARIOUS COUNTRIES--CANADA 32 PERCENT, U.S. 29 PERCENT,  
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JAPAN 396 PERCENT, FRG 455 PERCENT, ITALY 662 PERCENT, SWITZERLAND 462 PERCENT, FRANCE 195 PERCENT. THIS PROVOKED IMMEDIATE HOWLS OF PROTEST FROM ITALY AND SWITZERLAND. CANADA THEN NOTED IT WAS MERELY TRYING TO DEMONSTRATE HOW DIFFICULT IT WOULD BE TO DEVISE RATIONAL CRITERIA FOR DETERMINING DIFFERENT FSO SHARES IF THE BANK'S PROPOSAL



WERE NOT ACCEPTED.

14. THERE WAS NO EXPLICIT DISCUSSION OF LEVELS FOR THE REPLENISHMENT ALTHOUGH A FEW COUNTRIES EXPRESSED A PREFERENCE FOR THE IDB'S ALTERNATIVE III (\$8.3 BILLION FOR CAPITAL AND \$2.0 BILLION FOR THE FSO OVER THE FOUR YEAR PERIOD 1979-82) AND SOME EXPRESSED VIEWS ON THE ANNUAL RATE OF GROWTH IN LENDING. SEVERAL COUNTRIES (ITALY, JAPAN, NETHERLANDS, DENMARK, U.K.) SAID THAT A FIVE PERCENT ANNUAL REAL GROWTH RATE WOULD BE PREFERABLE TO THE IDB'S PROPOSED SEVEN PERCENT. ALTHOUGH ARGENTINA AND BRAZIL PREFERRED LARGER REPLENISHMENTS, THEY STATED THAT THEY COULD ACCEPT FIVE PERCENT GROWTH OVER A 1976-78 AVERAGE LENDING BASE. IDB STAFF AND SOME DELEGATIONS (NOTABLY FRG) ASSERTED THAT THERE WAS A CONSENSUS FORMING AROUND ALTERNATIVE III. THE U.S. POINTED OUT THAT MOST COUNTRIES WHICH INDICATED A PREFERENCE FOR ALTERNATIVE III HAD REFERRED TO ITS GREATER EMPHASIS ON CAPITAL LENDING THAN ON THE FSO, COMPARED TO THE IDB'S OTHER ALTERNATIVES, NOT TO THE PRECISE LEVELS OF LENDING WHICH IT SUGGESTED. FOR OUR OWN PART, WE FOUND THE LEVELS IN ALTERNATIVE III EXCESSIVELY AMBITIOUS, ALTHOUGH NOT IMPOSSIBLE IF MAJOR PROGRESS WERE MADE ON POLICY AND OTHER ISSUES.

15. ALTHOUGH SOME COUNTRIES PREFERRED A THREE YEAR REPLENISHMENT AND BRAZIL AND ARGENTINA PROPOSED FIVE YEARS, A CONSENSUS FORMED ON FOUR YEARS. THE U.S. TOOK CONFIDENTIAL

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NO POSITION ON THE ISSUE.

16. COMMENT: MOST DELEGATIONS AT THE MADRID MEETING WERE NOT EMPOWERED TO MAKE FIRM COMMITMENTS ON SPECIFIC ISSUES. THEREFORE, TRUE NEGOTIATIONS WITH CONCRETE RESULTS WERE OUT OF THE QUESTION AND THERE WAS NOT EVEN CORRIDOR DISCUSSION OF REPLENISHMENT AMOUNTS. NEVERTHELESS, THE MEETING PROVIDED AN EXCELLENT OPPORTUNITY FOR THE PARTICIPANTS TO EXPRESS THEIR VIEWS ON MAJOR ISSUES AFFECTING THE REPLENISHMENTS. ITS FORMAT WAS FLEXIBLE AND THERE WAS LITTLE PROCEDURAL WRANGLING. MOREOVER, RATHER THAN PUSHING AGGRESSIVELY FOR ITS OWN POSITIONS, THE IDB MANAGEMENT AND STAFF SEEMED INTERESTED IN ACCOMMODATING THE VIEWS OF THE MEMBERS AND PLAYED A BALANCED AND CONSTRUCTIVE ROLE. INTERESTING FEATURES OF THE MEETING INCLUDED LENGTHY WRANGLING AMONG NON-REGIONAL MEMBERS AND TOTAL RELUCTANCE OF REGIONAL DEVELOPING COUNTRIES TO ADDRESS DONOR ISSUES. GENERAL AGREEMENT WAS REACHED ON A FEW ISSUES--NOTABLY THE DURATION OF THE REPLENISHMENT, THE EMPHASIS ON CAPITAL RATHER THAN CONCESSIONAL LENDING, AND THE IMPORTANCE OF FOCUSING FSO LENDING ON THE POOR (COUNTRIES AND/OR PEOPLE).

17. NEVERTHELESS, THERE IS A LONG WAY TO GO IF THIS REPLENISHMENT NEGOTIATION IS TO BE CONCLUDED BY SEPTEMBER 29. IT IS CRUCIALLY IMPORTANT THAT THE IDB STAFF, THE COMMITTEE OF THE BOARD OF GOVERNORS AND THE WORKING GROUP ON FUNCTIONS AND POLICIES MAKE MAJOR PROGRESS IN THE NEXT FEW WEEKS ON THE POLICY ISSUES WHICH CONCERN US AND OTHERS, PARTICULARLY THE JAPANESE AND CANADIANS. THIS WILL ENTAIL IMPORTANT CHANGES IN THE STRUCTURE AND NATURE OF THE BANK'S OPERATIONS AND MAY BE DIFFICULT TO ACHIEVE. MORE THAN ONE MEETING OF THESE GROUPS MAY BE REQUIRED. ALSO, DESPITE EMPHASIS BY THE U.S. DELEGATION IN FORMAL SESSIONS AND IN THE CORRIDORS THAT THE LEVEL OF OUR PARTICIPATION IN THE CONFIDENTIAL

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REPLENISHMENT DEPENDS GREATLY ON THE DEGREE OF PARALLEL PROGRESS ON THE POLICY ISSUES, IT IS NOT CLEAR THAT OTHER DELEGATIONS FULLY ACCEPT THIS REALITY. SOME SEEM CONVINCED THAT OUR STANCE IS MERELY A BARGAINING POSITION OR POSTURING TO PLEASE THE CONGRESS. IT IS ESSENTIAL TO CLEAR UP ANY SUCH MISINTERPRETATIONS AND EMBASSIES SHOULD TAKE ANY OPPORTUNITIES WHICH ARISE TO STRESS THE IMPORTANCE OF PARALLEL PROGRESS ON THE TWO SETS OF ISSUES--POLICY CHANGES AS OUTLINED IN PARAGRAPH 8 AND

REPLENISHMENT LEVELS. JAPAN AND PARTICULARLY CANADA CAN BE HELPFUL IN THIS REGARD AND WE WILL BE CONSULTING CLOSELY WITH THEM AS THE EXERCISE PROCEEDS. CHRISTOPHER

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## Message Attributes

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**Previous Handling Restrictions:** n/a  
**Reference:** STATE 108137  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 08 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2176450  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MEETING OF WORKING GROUP ON REPLENISHMENT OF RESOURCES OF INTER-AMERICAN DEVELOPMENT BANK  
**TAGS:** EAID, OCON, SP, IDB  
**To:** ALL AMERICAN REPUBLIC DIPLOMATIC POSTS MANILA MULTIPLE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/2c2c4f7e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
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**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014